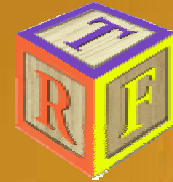




Indiana State Teachers' Retirement Fund
150 West Market Street, Suite 300
Indianapolis, IN 46204-2809



Investing Your Annuity Saving Account

Indiana State Teachers'
Retirement Fund

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This brochure is a summary and is not intended to provide total information concerning your investments. Detailed information may be obtained by contacting Indiana State Teachers' Retirement Fund.

Indiana State Teachers' Retirement Fund Benefits



As soon as an individual becomes a member of the Teachers' Retirement Fund, benefits start to accrue. There are two separate types of benefits:

The Defined Benefit, which makes up the largest portion of each member's retirement benefit, is based on a specific formula that is created by the state legislature. Retired members of the fund receive a monthly check based on that formula. The Board of Trustees oversees the investment of this portion of the Fund.

Annuity Saving Account, is a smaller portion of each member's retirement benefit. This account contains 3% of each employee's annual salary and payment into the account is mandatory. The 3% may be deducted from each employee's paycheck or contributed by their employer through a pick-up. All of the money earned in each member's individual account belongs to that member and he/she controls how the money is invested. The Fund is currently offering members five options for the investment of the Annuity Savings Account.

The goal of this publication is to assist each member with the investment of his/her Annuity Savings Account, the contents of which is the property of the member. This account may only be withdrawn upon separation from service, retirement or death.

At the time of retirement, the contents of the Annuity Savings Account may either be rolled over into an IRA or annuitized, in which case the member will receive a monthly check (the amount if based on actuarial tables). That monthly allocation is combined with the defined benefit and the member receives one check per month.

Prior to August 1998, members of the Fund had only three investment options for the Annuity

Savings Account. Those included the Guaranteed Fund, a Money Market Fund and a Bond Fund. As the result of a referendum that was approved by the voters of Indiana, public retirement funds can now be invested in stock as well as bond funds. This change in Indiana Law has enabled the Fund's Board of Trustees to offer additional investment options to members.

The Guaranteed Fund is the default fund. However, in the past, once a member moved money out of that fund, he/she was unable to make any additional changes in fund allocation. Now members can move their money out of the Guaranteed Fund and into the other funds. Once that initial allocation is made, the member can make additional changes in fund allocations **quarterly** including moving money back into the Guaranteed Fund.

In the past, members received an annual Account Statement that provided information on the current status of their Annuity Savings Account. Now that members can make changes in fund allocations during any quarter of any give year, Account Statements will be issued on a quarterly basis. This will provide members with the up-to-date information needed to make investment decisions.

The Current Investment Options



S & P 500 Index Fund

This fund closely tracks the return of the S & P 500 Index by employing an indexing strategy that invests in the stocks of the S & P 500 Index companies (the 500 largest public companies on major stock exchanges).

Small Cap Equity Fund

This fund consists of stocks with a market capitalization of less than \$1.5 billion. The fund's objective is, over the long term, to provide total returns in excess of the Russell 2000 Index Fund (2000 selected small capitalized public companies).

International Equity Fund

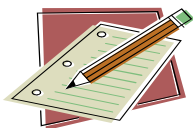
This fund consists of securities of developed non-U.S. countries. This fund's objective is, over the long term, to provide returns in excess of a broad international market index (EAFE: Companies from Europe, Australia and the Far East.)

Bond Fund

This fund consists of a broad range of corporate, government and agency instruments. It can have up to 10% in high yield bonds and up to 10% in non-U.S. fixed income instruments. The objective of the fund, over the long term, is to outperform Lehman Brothers Aggregate Bond Index.

Guaranteed Fund

The rate for this fund is determined annually by the ISTRF Board of Trustees. The balance of each member's account at the beginning of the quarter is credited interest at the end of the quarter. The Guaranteed Fund is comprised of 90% Bonds and 10% Stocks.



The Regulations

- ◆ Non-Retired members may allocate annuity savings account monies among the five approved funds by using State Form 19368(R7/5-98). This is the *Request to Allocate Annuity Saving Account* form.
- ◆ The form will be mailed to members, along with their quarterly statement. If a completed form is received by the Fund by the deadline provided and the member is eligible to make an allocation, the changes will be made during the first month of the following quarter.
- ◆ Members may request allocations to one or all of the approved funds, as long as those allocations are made in 10% increments of the total balance in the member's account at the time of allocation. The total must equal 100%.
- ◆ The 3% Employee Contribution that is made to each active member's account will be distributed to the member's selected

funds in accordance with their latest processed allocation.

In order for changes in an eligible member's fund allocations to be made, a completed *Request to Allocate Annuity Savings Account* form must be received by the TRF office according to the following schedule:

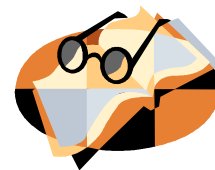
To be Effective

January 1st
April 1st
July 1st
October 1st

Received by TRF

November 30th
February 28th
May 31st
August 31st

Fund Management



Each fund will generally have more than one manager. When a member invests in a fund with multiple managers, the member's money will be attributed proportionally to those firms. A weighted average will be used to compute returns and credit each member's account. Members will receive an account statement each quarter.

Fund managers are chosen through a careful selection process, with final decisions being made by the Board of Trustees. The management information for funds in which members' *Annuity Saving Account* allocations are be invested are:

S & P 500 Index Fund

- Managed by Barclays (San Francisco, CA). The benchmark for this fund is the S & P 500 Index.
- The average fee being paid to the fund managers is .01%.

Small Cap Fund

- Value managers are Ariel (Chicago, IL) and Brandywine (Wilmington, DE).
- Growth managers are Aeltus (Hartford, CT) and TCW Group (Los Angeles, CA).

- The benchmark for this fund is the Russell 2000 Index.
- The average fee being paid to the fund managers is .65%.

International Fund

- Managed by the Bank of Ireland (Dublin), Alliance Capital Management (New York City) and Dresdner RCM (San Francisco).
- There will be actively managed and passively managed portions of the fund.
- The benchmark for this fund is the EAFE Index.
- The average fee that will be paid to the fund managers is .50%

Bond Fund

- Managed by Reams Asset Management (Columbus, IN).
- The benchmark for this fund is the Lehman Brothers Aggregated Bond Index.
- The fee paid to the fund managers is .12%.

Guaranteed Fund

The rate for this fund is determined annually by the ISTRF Board of Trustees and then guaranteed for that year.

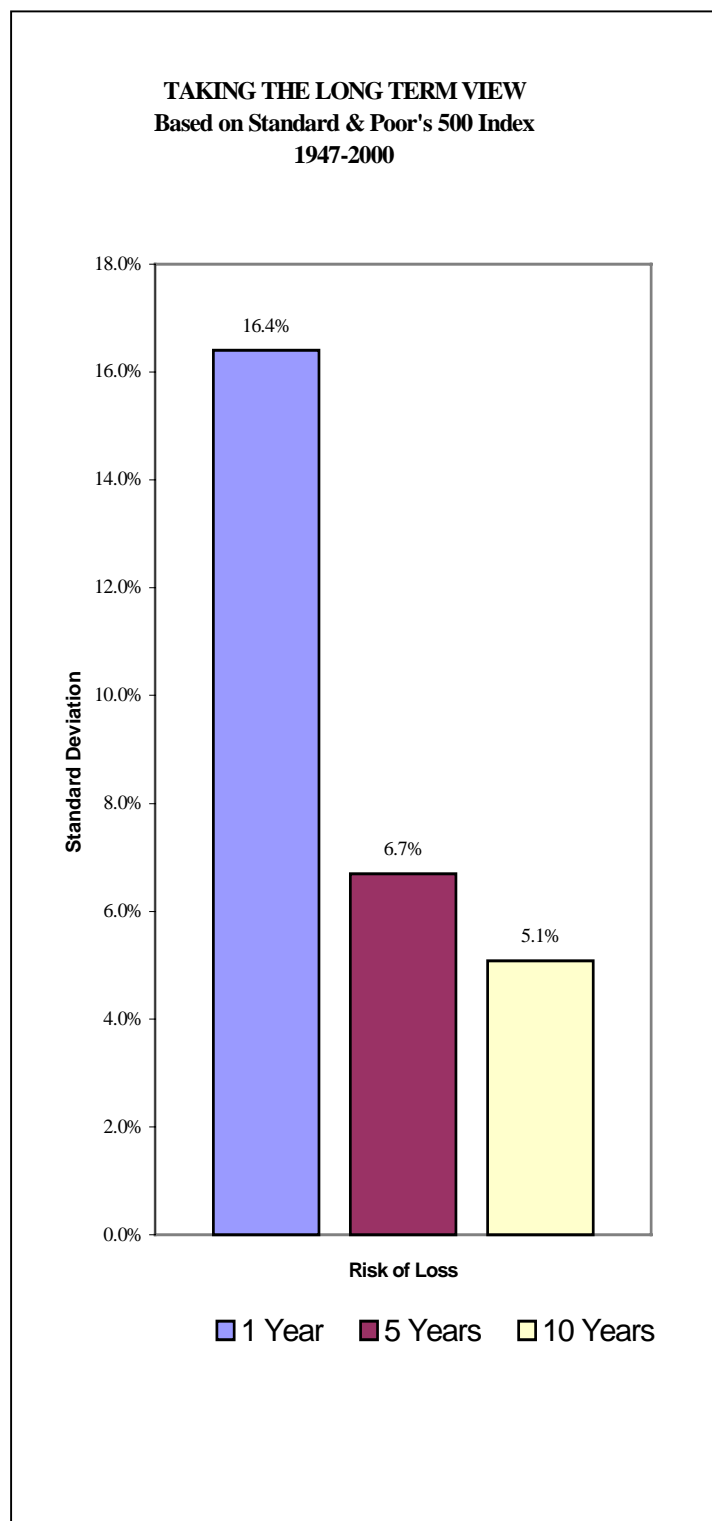
Investment Information



This material provides you with general information about the investments available under the Plan. Your specific investment choices should be based on your risk tolerance and the time your account is likely to remain invested. After careful study of your choices, you may also wish to consult with a professional financial advisor concerning the investment choices that are right for you.

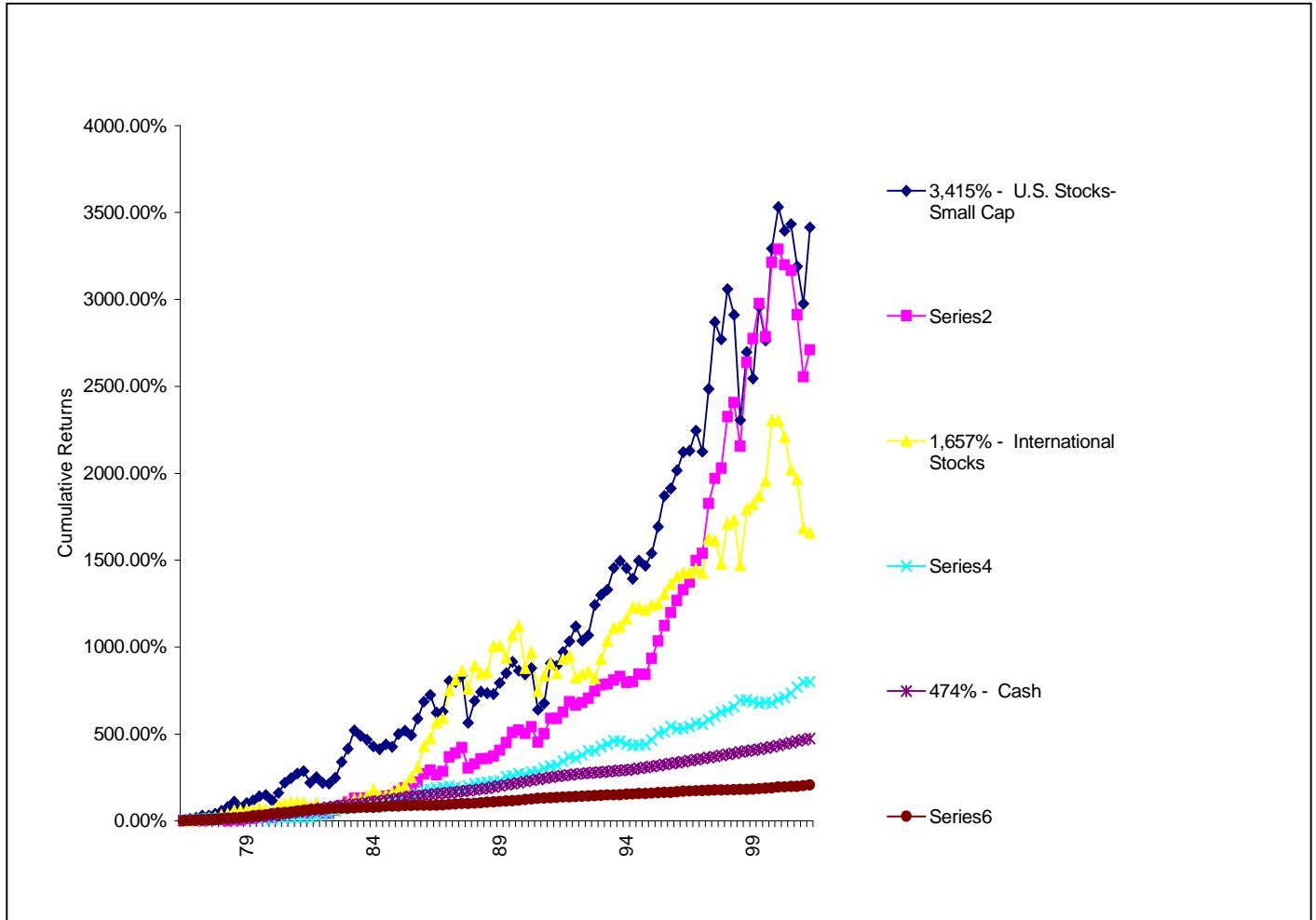
The information provided in the charts is about past performance. Past performance and returns are not indicative of future returns and should not be relied on as a sole source for your decisions. Investment returns will fluctuate. Principal values will also fluctuate for everything but the *Guaranteed Fund*.

TAKING THE LONG TERM VIEW Based on Standard & Poor 500 Index



The figures are based on Standard and Poor's 500 Index from 1947-2000. They are not adjusted for inflation and dividends are reinvested annually.

Cumulative Returns for 25 years ended June 30, 2001



Investing for the Long Term

Investment Risks

Every type of investment carries some risk. Here are the types of risk that investors take:

- ***Principal risk:*** This is the risk that you will lose some of the original funds that you invested.
- ***Inflation risk:*** This is the risk that increases in the cost of living will reduce the buying power of the money that you are saving for the future.
- ***Interest-rate risk:*** This is the risk that changes in interest rates will affect the prices of bonds and other fixed income that an investor will receive from the investments.
- ***Credit risk:*** This is the risk that the issuer of a fixed income investment will default in paying interest or giving back the principal.

Looking at Risks over the Long Haul

When you invest for retirement, it is very important to take a long-range view. Persons who are not accustomed to making investments often want to make the “safest” choices. They are often fearful about losing their principal. However, the investments perceived to be the safest, often earn the least over the long term. Higher returns can have a significant impact on how much money individuals accumulate over their lifetime and person who only make very conservative investments often fall short of meeting their retirement income goals. It is possible that the rate of return on investments will not keep up with inflation and that money will lose its buying power. At a minimum, most individuals, with some time until retirement, would want investments that will at least grow faster than the rate of inflation.

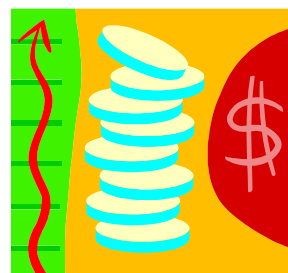
However, it is true that investments that provide greater growth opportunities also involve more risk to investment principal. In general, the higher the potential return, the greater the risk. But this is often only the case when one is looking at short-term performance. Each day, investment markets move up and

down. Sometimes, the yo-yo effect is dramatic and can be frightening to investors. Even if a particular investment category has a down period, that category may do well in the future. So, it is important to keep the focus of investments on long-term performance, unless one is very close to the point when one intends to withdraw the investment at retirement. However, by putting one’s money together with the money of other individuals, an individual has the ability to take advantage of diversification even if personal income is modest. The investment funds created by TRF provide this opportunity for members.

Definitions of Common Financial Terms You Can Use When Thinking About Your ISTRF Elections

Asset Classes

Different types of investments. Stocks and bonds are the most common asset classes.



Bonds (Fixed-Income Investments, Bond Funds, Income Funds)

A bond is like an IOU that is issued by an organization that is borrowing the investor’s money. In general, the investors earn a specified interest rate during the life of the bond. When the bond reaches maturity, at a specified date, the investor usually receives his/her principal back.

Capital Gain/Capital Loss

The profit or loss from the sale of stocks, bonds, property and mutual fund shares or the difference between the purchase price and the sale price of stocks, bonds, property or mutual fund shares.

Diversification

The process of putting money in several different classes of investments, such as stocks and bonds. Different types of investments often react differently to economic changes. By spreading your investment among different asset classes, you may be able to reduce the risk short-term losses without sacrificing the potential for growth to your overall portfolio.

Dividend

A share of a company's earnings paid out periodically of shareholders in cash or in the form of additional shares of stock.

Index Fund

A fund designed to match the performance of a particular index, like Standard and Poor's 500. A true index fund will simply purchase all the stocks in that index. Generally, index funds have lower expenses than other funds because of lower management costs. Because the fund managers do not actively select stocks for the portfolio, index funds are considered to be "passively managed," rather than "actively managed" funds. In recent years, large cap index funds have often outperformed the actively managed stock funds. However, as in all such comparisons, past performance is not a guarantee of future results.

International Equity Funds

International equity funds invest assets in stocks of companies located outside the United States.

Portfolio

An investor's combined holdings, which may include stocks, bonds and other investments, including real estate.

Principal

A person's initial investment. Safety of principal means the assurance that a person's principal will remain the same over the life of the investment.

Return

The amount of money gained or lost on an investment. Return may be calculated before or

after deducting operating expenses, including management and administrative expenses.

Securities

Financial instruments, usually stocks, bonds, stable value investments or mutual fund shares, that are issued by: corporations; local, state or national governments; or investment companies to raise or borrow money or give the public an opportunity to participate in the ownership of a company.

Small/Large Capitalization Stocks

Small cap stocks are generally issued by companies whose total market capitalization ranges from \$100 million to \$1.5 billion at the time of purchase. Large cap stocks generally are issued by companies with over \$1.5 billion in market capitalization.

Standard and Poor's 500 (S & P 500)

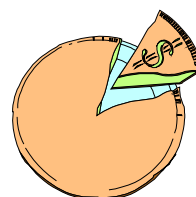
An index of the 500 U.S. corporations that have roughly the greatest market capitalization.

Financial Planners

These individuals evaluate your finances and recommend strategies and goals for your overall financial situation. Planners are either paid a fee for their services or they are paid a commission on products they sell. Keeping this in mind, it is important to find a planner who is impartial and for whom your needs come first. Certified Financial Planners (CFP) are individuals who have passed a rigorous exam administered by a regulatory board. They can work either independently or for a firm.

Tax-deferred Compounding

The ability to save money for retirement in a qualified retirement plan without having to pay any taxes on interest, dividends or capital gains until the money is withdrawn, usually upon retirement.





Questions & Answers

Question: Does the addition of investment in stocks mean that ISTRF is taking a greater risk with members' retirement funds?

Answer: No, in fact, both stock and bond prices go up and down over time and when you look at the long term picture, stocks have outperformed bonds. One of the best ways to keep an investment portfolio secure is to invest in more than one type of fund, so this change should actually help to ensure security and increase earnings.

Question: If ISTRF funds do earn more money, does that mean that members will get larger monthly benefits when they retire?

Answer: This question needs to be answered separately for the two types of benefits that members receive. Increases in earnings on the investments for the **Defined Benefit** will not mean an increase in monthly benefits unless the formula used to calculate that benefit is changed. However, higher earnings would decrease the expense of Indiana taxpayers as they relate to this fund.

On the other hand, all of the income earned by each member's investment of the **Annuity Saving Account** belongs to that member. So, if there is an increase in earnings in this account, the member will have more money available upon retirement.

Question: What is the Guaranteed Fund?

Answer: Until 1996, when the voters of Indiana approved a referendum permitting investment of public retirement funds in stocks as well as bonds, all of the ISTRF funds were invested in bonds and were in a fund called the **Guaranteed Fund**. Member's individual **Annuity Saving Accounts** have also primarily been invested in this fund. The interest rate for the **Guaranteed Fund** is determined by the

ISTRF Board of Directors on an annual basis. The rate is guaranteed for one year, until the Board approves a new rate. This investment option still exists and it is guaranteed under state law. Unless a member opts to move some or all of their **Annuity Savings Account** into the new investment options, the money in that member's account will remain in the **Guaranteed Fund**.

Question: Does the ISTRF staff decide how to invest the money in the **Defined Benefit** portion of the fund?

Answer: No. The ISTRF Board has the legal responsibility for investments. They oversee the hiring of highly qualified experts, some of whom help to develop policies and plans, as well as others who are hired to manage the different investment options.

Question: How can I be sure that ISTRF is acting responsibly with my investment?

Answer: Before any investments were made, the ISTRF Board of Trustees hired Callan Associates, a San Francisco based firm (with a Chicago office) that is experienced in working with comparable public funds. They assisted the board and staff with creating all policies that are used to oversee the investment process. They have also assisted with evaluating the prospective fund managers.

National City Bank is being used as the "custodial bank," which means that they keep a record of all the fund transactions. Finally, ISTRF is operating under the highest investment standard, which is called the "Prudent Investor Standard."



Fund Information on the Web

You can visit
Indiana
State Teachers'
Retirement on
the World Wide
Web at:
www.in.gov/trf



One of the services provided on the site is a series of links to the web sites of index funds that act as benchmarks for some of the investment options for your Annuity Saving Accounts, including:

- S & P 500 Index
- Russell 2000 Index
- EAFE Index



For additional assistance with financial planning for retirement, a link is also provided to the National Council on Teacher Retirement's LIFEPLAN page.

Contacting Your Fund

You can find out about the
following at our main numbers:

(317) 232-3860 / Toll-Free (888) 286-3544

- ✓ Benefits Checks Deductions
- ✓ Benefit Check Health Insurance Deductions
- ✓ Counseling
- ✓ Death Reports
- ✓ Direct Deposits
- ✓ Lost Checks
- ✓ Service Credit
- ✓ Withdrawals

Other Services:

Investments..... (317) 232-3868
TDD/TTY.....(317) 233-3306
Director's Office... (317) 232-3869
FAX Number..... (317) 232-3882

Visit our site on the World Wide Web at:
<http://www.in.gov/trf>

You can send our office an electronic mail
message at: trf@state.in.us



